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## **Independent Auditors' Report**

The Board of Managers  
GE Industrial of PR, LLC:

We have audited the accompanying financial statements of GE Industrial of PR, LLC (the Company), which comprise the balance sheet as of December 31, 2014, and the related statements of income, comprehensive income, changes in member's equity, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of GE Industrial of PR, LLC as of December 31, 2014, and the results of its operations and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

San Juan, Puerto Rico  
August 17, 2016

License No. 21  
Expires December 1, 2016



# GE INDUSTRIAL OF PR, LLC

## Balance Sheet

December 31, 2014

### Assets

Current assets:	
Cash	\$ 164,539,047
Accounts receivable:	
Affiliates	64,799,806
Trade and other receivables	7,271,073
Total accounts receivable	72,070,879
Inventories, net	36,099,343
Prepaid expenses	1,507,840
Deferred tax asset	77,188
Total current assets	274,294,297
Deferred tax asset, net	11,665,163
Equipment and leasehold improvements, net	25,135,276
Total assets	\$ 311,094,736

### Liabilities and Member's Equity

Current liabilities:	
Accounts payable:	
Trade	\$ 32,652,348
Affiliates	60,289,365
Total accounts payable	92,941,713
Accrued expenses	23,622,117
Pension and postretirement liabilities	945,540
Total current liabilities	117,509,370
Pension and postretirement liabilities	36,242,072
Total liabilities	153,751,442
Member's equity:	
Member's interest	126,422,091
Retained earnings	86,698,728
Accumulated other comprehensive loss	(55,777,525)
Total member's equity	157,343,294
Commitments and contingencies	
Total liabilities and member's equity	\$ 311,094,736

See accompanying notes to financial statements.

**GE INDUSTRIAL OF PR, LLC**

Statement of Income

Year ended December 31, 2014

Net sales	\$ 362,043,463
Cost of sales	<u>212,136,417</u>
Gross profit	149,907,046
General and administrative expenses	<u>76,585,620</u>
Operating profit	73,321,426
Interest income	<u>2,028,940</u>
Earnings before income tax benefit	75,350,366
Income tax benefit	<u>(466,551)</u>
Net income	<u><u>\$ 75,816,917</u></u>

See accompanying notes to financial statements.

**GE INDUSTRIAL OF PR, LLC**  
Statement of Comprehensive Income  
Year ended December 31, 2014

Net income	\$ 75,816,917
Other comprehensive income (loss), net of tax:	
Defined-benefit pension and postretirement plans:	
Net actuarial loss	(30,240,719)
Less:	
Amortization of prior service cost included in net periodic pension cost	<u>76,117</u>
Other comprehensive income (loss)	<u>(30,164,602)</u>
Other comprehensive income	<u><u>\$ 45,652,315</u></u>

See accompanying notes to financial statements.

**GE INDUSTRIAL OF PR, LLC**  
Statement of Changes in Member's Equity  
Year ended December 31, 2014

	<b>Member's interest</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive loss</b>	<b>Total member's equity</b>
Balance, December 31, 2013	\$ 122,343,019	610,881,811	(25,612,923)	707,611,907
Dividend paid	—	(600,000,000)	—	(600,000,000)
Net income	—	75,816,917	—	75,816,917
Capital contribution	4,079,072	—	—	4,079,072
Other comprehensive loss	—	—	(30,164,602)	(30,164,602)
Balance, December 31, 2014	<u>\$ 126,422,091</u>	<u>86,698,728</u>	<u>(55,777,525)</u>	<u>157,343,294</u>

See accompanying notes to financial statements.

# GE INDUSTRIAL OF PR, LLC

## Statement of Cash Flows

Year ended December 31, 2014

Cash flows from operating activities:	
Net income	\$ 75,816,917
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	11,894,648
Deferred tax benefit	(1,257,838)
Loss on disposal of property	575,835
Decrease (increase) in:	
Accounts receivable from affiliates	(59,674,966)
Other receivables	585,950
Inventories	(5,804,405)
Prepaid expenses	(1,464,612)
Other assets	256,176
Increase (decrease) in:	
Accounts payable – trade	10,899,359
Accounts payable to affiliates	(8,175,206)
Income tax payable	(265,000)
Accrued expenses	13,089,760
Pension liability	(4,450,011)
Net cash provided by operating activities	<u>32,026,607</u>
Cash flows from investing activities:	
Capital expenditures	(11,652,691)
Loans collected from General Electric Company	<u>738,011,987</u>
Net cash provided by investing activities	<u>726,359,296</u>
Cash flows from financing activities:	
Dividend paid	(600,000,000)
Additional capital contribution	<u>1,154,486</u>
Net cash used in financing activities	<u>(598,845,514)</u>
Net increase in cash	159,540,389
Cash and cash equivalents, beginning of year	<u>4,998,658</u>
Cash, end of year	<u><u>\$ 164,539,047</u></u>
Supplementary information on noncash operating transactions affecting cash flows activities at December 31, 2014:	
Change in liability for pension and postretirement benefits, net of tax (in thousands)	\$ 30,165
Additional noncash capital contribution (in thousands)	2,925
Supplemental disclosures of cash flow information:	
Income taxes paid	\$ 904,000

See accompanying notes to financial statements.

## GE INDUSTRIAL OF PR, LLC

### Notes to Financial Statements

December 31, 2014

#### (1) Nature of Business and Summary of Significant Accounting Policies

GE Industrial of PR, LLC (the Company) was organized on November 6, 2006 under the laws of Puerto Rico. The Company is a limited liability company and up to March 22, 2013 was owned by Caribe GE International of Puerto Rico, Inc. and Caribe GE Manufacturing, LLC which are ultimately owned by the General Electric Company (General Electric). On March 22, 2013, Caribe GE International of Puerto Rico, Inc. purchased the common stock owned by Caribe GE Manufacturing, LLC and became the sole owner of the Company. The Company is engaged in the manufacture of electrical products through a number of manufacturing plant facilities, which are located at different municipalities in Puerto Rico. Sales are primarily made to affiliates.

The accounting policies conform to U.S. generally accepted accounting principles. The significant accounting policies followed by the Company are the following:

##### (a) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the carrying amount of equipment and leasehold improvements, valuation of inventories, deferred tax assets, environmental liabilities, and assets and obligations related to employee benefits.

##### (b) *Cash Equivalents*

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. At December 31, 2014, the Company did not held cash equivalents.

##### (c) *Inventories*

Inventories consist primarily of raw materials and are stated at the lower of cost, using the first-in, first-out method, or market, net of obsolescence reserve, amounting to \$2,913,881 at December 31, 2014.

##### (d) *Depreciation and Amortization*

The cost of equipment is depreciated using an accelerated method over the estimated useful lives of the assets. Improvements to leased premises are amortized on the straight-line method over the term of the lease or the estimated useful life of the improvement, whichever is shorter.

##### (e) *Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in



## GE INDUSTRIAL OF PR, LLC

### Notes to Financial Statements

December 31, 2014

tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in selling, general, and administrative expenses.

**(f) *Long-Lived Assets***

Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

**(g) *Revenue Recognition***

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable.

**(h) *Fair Value Measurements***

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The Company had no financial instruments at fair value at December 31, 2014.

## GE INDUSTRIAL OF PR, LLC

### Notes to Financial Statements

December 31, 2014

(i) ***Pensions and Other Postretirement Plans***

The Company has a contributory defined-benefit pension plan covering substantially all of its employees and the Puerto Rico employees of other affiliates upon their retirement. The benefits are based on age, years of service, and the level of compensation during the five years before retirement. The Company also sponsors a postretirement medical and life insurance benefits plan for substantially all retirees and full-time employees.

The Company records annual amounts relating to its pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates, and healthcare cost trend rates. The Company reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income and amortized to net periodic cost over future periods using the corridor method. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

The net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

(2) **Inventories**

At December 31, 2014, inventories consist of the following:

Raw materials	\$ 26,357,298
Work in process	12,655,926
Reserve for slow-moving or obsolete inventory	(2,913,881)
	<u>\$ 36,099,343</u>

(3) **Equipment and Leasehold Improvements, Net**

Equipment and leasehold improvements at December 31, 2014 consist of the following:

Machinery and equipment	\$ 130,968,825
Leasehold improvements	2,870,492
	<u>133,839,317</u>
Less accumulated depreciation and amortization	(113,555,302)
Improvements in progress	<u>4,851,261</u>
Equipment and leasehold improvements, net	<u>\$ 25,135,276</u>

## GE INDUSTRIAL OF PR, LLC

### Notes to Financial Statements

December 31, 2014

The estimated useful life of machinery and equipment ranges from 5 to 15 years. Amortization of leasehold improvements is provided over the term of the lease or the useful life of the asset, whichever is shorter. Depreciation and amortization expense for the year ended December 31, 2014 was approximately \$11,895,000.

#### (4) Intercompany Transactions

Substantially, all sales and purchases are transacted with General Electric and affiliates. Significant transactions with General Electric and affiliates during the year ended December 31, 2014 are summarized as follows:

Sales	\$ 362,043,463
Purchases	32,123,194
Allocated general and administrative expenses	9,433,082
Royalty expense	13,937,456
Corporate assessments	129,489
Interest income	232,182

As of December 31, 2014 the Company has incurred costs amounting to \$8.8 million which includes costs of \$1.2 million dollars related to current year severance for employees and accelerated depreciation of \$2.9 million dollars to bring these assets to salvage value as these assets have no future use. An additional reserve of \$4.6 million dollars was established to accrue for the costs related to future employee restructuring. All costs related to the plant closure are presented as general and administrative expenses in the statement of income. The total expected costs to be incurred by the Company at the conclusion of these closings amounts to \$14.3 million composed of accelerated depreciation and employee terminations.

Expenses related to plant closures are assumed by the General Electric Company (GE Company) on behalf of the Company. The Company is not expected to repay these amounts to GE Company. Consequently, the transaction has been presented as a capital contribution in the accompanying statement of changes in member's equity.

#### (5) Income Taxes

The Company along with other affiliates in Puerto Rico (collectively known as the Companies) has been granted a new tax exemption decree (the Grant) pursuant to the provisions of the Puerto Rico Tax Incentives Act No. 135 of 1998 (Act No. 135) for a period of ten (10), fifteen (15), twenty (20), and twenty-five (25) years depending on the municipality the exempted businesses is located. The effective date of the tax exemption was January 1, 2009.

Under the Grant, the Company's manufacturing operation is subject to an income tax rate in a range between 2% and 7%, subject to compliance with certain employment requirements, and shall make an additional investment of \$50 million within seven (7) years, commencing on January 1, 2009. Dividends and liquidating distributions of the Company's earnings and profits from industrial development income are not subject to income taxes or to any withholding tax at source.

## **GE INDUSTRIAL OF PR, LLC**

### Notes to Financial Statements

December 31, 2014

In addition, the Company's manufacturing operations are exempt as follows:

- 90% from municipal and Commonwealth taxes on real and personal property
- 60% from license fees, excise, and other municipal taxes, levied by any ordinance of any municipality
- 100% from excise taxes imposed under Subtitle B of the Puerto Rico Internal Revenue Code, to the extent provided in Section 6(c) of the Act

The Company announced the closure of its San Germán, Humacao and Vega Baja manufacturing plants which is consistent with its' overall strategy of consolidating manufacturing operations to reduce the global footprint and lower the overall cost to manufacture by December 31, 2016. The Company has been in communication with the government of the Commonwealth of Puerto Rico regarding this matter, and requested an amendment to its Grant of Industrial Tax Exemption in order to realign their headcount level. The request for amendment was filed during 2014 and, approval from the Puerto Rico Industrial Development Company was received in May 2015, but with effective date of January 1, 2014.

Pursuant to Law No. 226 of August 29, 2002, the manufacturing operation located in Vieques was granted 90% exemption from property and municipal license taxes, and 100% exemption from income tax on industrial development income for a period of 10 years. Renovation of the contract in 2009 extended the exemption period for another 10 years.

On August 19, 2004, the Companies' and the Secretary of the Treasury entered into a closing agreement pursuant to Section 6126 of the Puerto Rico Internal Revenue Code of 1994, as amended, whereby the Companies are entitled to the income tax overpayments resulting from reallocations made by the Internal Revenue Service's (IRS) to taxable years 1983 through 1999, pursuant to Section 482 of the U.S. Internal Revenue Code. The income tax overpayments will be available as credits to the Companies or its successor in interest against any future liability for Puerto Rico income taxes, provided that such credit may not be used to reduce the total Puerto Rico income tax liability by more than 50% for any given year.

The expected income tax differs from the actual tax expense (benefit) mainly due to the reduction in income taxes resulting from the Puerto Rico Tax Incentives Act No. 135 of 1998, tax credits available per closing agreements with Secretary of the Treasury, and other tax credits provided by Act 73 of May 28, 2008.

## **GE INDUSTRIAL OF PR, LLC**

### Notes to Financial Statements

December 31, 2014

On July 1, 2014, the Governor of the Commonwealth of Puerto Rico signed House Bill 1919 into law, which became Act 77-2014 (the Act). The Act, which amends the Puerto Rico Internal Revenue Code of 2011 and Act 73-2008, also known as the “Economic Incentives for the Development of Puerto Rico Act”, includes several new tax measures applicable to financial and non financial entities. The main provisions of the Act include:

- A mechanism to impose a 10% tax on a deemed dividend amount resulting from the holding of certain foreign assets, as defined.
- The exclusion of loans or credit transactions between affiliates, with some limited exceptions, for purposes of determining the Puerto Rico net assets as part of the computation of the dividend equivalent amount of foreign corporations subject to the branch profits tax.
- Elimination of the former Gross Income Tax as a component of the alternative minimum tax (AMT) for non financial institutions for taxable years commencing on January 1, 2014. Effective for taxable years commencing after December 31, 2014, a tax on gross income is imposed in addition to the regular income tax, the AMT or the alternative basic tax at graduated rates ranging from 20% to 85%. This gross income tax is deductible in arriving at taxable income.
- Limitation of the amount of the tax credit to be claimed against the current year regular tax with respect to the AMT paid in prior years (AMT Credit) to 25% of the current net regular tax over the AMT for such taxable year.
- Increase in tax rates on: (a) net long term capital gains for corporations from 15% to 25%, and (b) dividends from certain corporations from 10% to 15%.
- The holding period to determine whether a gain or loss from the sale of capital assets is considered long-term is increased from six-months to one year.

## GE INDUSTRIAL OF PR, LLC

### Notes to Financial Statements

December 31, 2014

Total income tax expense (benefit) recorded by the Company for the year ended December 31, 2014 was allocated as follows:

Current	\$	791,287
Deferred		<u>(1,257,838)</u>
Total	\$	<u><u>(466,551)</u></u>

The tax effects of temporary differences that give rise to significant portions of the deferred taxes at December 31, 2014 is presented below:

Deferred tax assets:

Pension, postretirement and medical benefits	\$	743,752
Inventories, principally due to reserve for inventory obsolescence		58,278
Other general and environmental reserve		70,059
Depreciation expense difference between book and tax basis		71,986
Tax credit per closing agreement		2,272,280
Tax credits granted under Act No. 73 of 2008		<u>8,864,483</u>
Deferred tax assets		12,080,838

Deferred tax liability-equipment, due to differences in depreciation and deduction of capital expenditures

		<u>338,487</u>
Net deferred tax assets	\$	<u><u>11,742,351</u></u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences at December 31, 2014. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The 2011 Code for a New Puerto Rico (the New Code) requires that entities exceeding a predefined volume of business submit audited financial statements for filing with local taxing authorities. This predefined volume of business is determined on a "controlled group" basis, as defined in the New Code. Among the requirements imposed by the New Code, entities that are part of a controlled group should file consolidated or combined audited financial statements, including a consolidating schedule presenting the financial condition and result of operations of each entity. The Department of the Treasury of the Commonwealth of Puerto Rico recently issued Administrative Determination No. 1407 to provide an alternative requirement in lieu of the consolidated financial statements.

## GE INDUSTRIAL OF PR, LLC

### Notes to Financial Statements

December 31, 2014

For tax year 2014, entities required to file audited financial statements with their income tax returns may file statutory audited financial statements and, in lieu of providing audited consolidated statements, should disclose in the notes to the statutory audited financial statements the names of related entities engaged in active trade or business in Puerto Rico, as defined by the New Code. The following related entities are engaged in active trade or business within Puerto Rico:

- GEA Caribbean Export LLC
- Caribe GE International of Puerto Rico, Inc.
- Caribe GE Manufacturing LLC
- General Electric Company
- GE Betz International, Inc.
- GE Appliances Caribbean and Co.
- Caribe GE International Energy Services, Inc.
- General Electric International, Inc.
- GE Healthcare Puerto Rico Corp.
- General Electric Capital Corporation of Puerto Rico
- General Electric Capital Corporation Puerto Rico Branch
- GE Fleet Services of Puerto Rico, Inc.
- GE Capital Fleet Services of Puerto Rico, Inc.
- Panametrics Caribbean, Inc.
- Caribe GE Engineering Services, Inc.
- Amersham health Inc.

At December 31, 2014, tax years 2012 through 2014 of the Company remain subject to examination by Puerto Rico taxing authorities.

#### **(6) Pension Plan, Postretirement, and Postemployment Benefits (All Amounts in Thousands)**

The Company accounts for its contributory defined-benefit pension plan in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 715-20, *Compensation – Retirement Benefits – Defined Benefit Plans – General*. The ASC 715-20 requires balance sheet recognition of the net asset or liability for the overfunded or underfunded status of defined benefit pension and other postretirement benefit plans, on a plan-by-plan basis, and recognition of changes in the funded status in the year in which the changes occur.

## GE INDUSTRIAL OF PR, LLC

### Notes to Financial Statements

December 31, 2014

The Company participates in a contributory defined-benefit pension plan (the Pension Plan) covering the Company's employees and other General Electric employees in Puerto Rico (commonly known as the GE Companies in Puerto Rico). The Pension Plan has a December 31 measurement date. Benefits are based on years of service and the employees' earnings. The administration of the Pension Plan resides at another affiliated entity. The Company makes annual contributions to the Pension Plan in amounts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws, plus such additional amounts as the Company may determine to be appropriate. The Company accounts for the Pension Plan in a manner similar to a multiple-employer plan. The total pension expense recorded by the Company for the year ended December 31, 2014 amounted to approximately \$2,234. At December 31, 2014, the Company had an accrual for pension liability amounting to \$19,707, which is included in the accrued expenses.

In addition, the Company and the other GE Companies in Puerto Rico provide postretirement medical and life insurance benefits (the Postretirement Plan and, collectively, the Plans) to full-time employees who meet minimum age and service requirements. The Postretirement Plan is contributory, with retiree contributions adjusted annually, and contains other cost sharing features, such as deductibles and coinsurance. The accounting for the Postretirement Plan anticipates future cost sharing changes to the written plan that are consistent with the expressed intent to increase the retiree contribution rate annually for the expected general inflation rate for that year. These benefits are accrued but are not funded annually. The total postretirement expense (credit) allocated to the Company for the year ended December 31, 2014 amounted to \$(104). At December 31, 2014, the Company had an accrual for medical and life insurance benefits amounting to \$17,481, which is included in accrued expenses.

The following table sets forth the benefit obligation, fair value of plan assets, and funded status of the Plans at December 31, 2014:

	<b>Pension benefits</b>	<b>Postretirement benefits</b>	
		<b>Medical</b>	<b>Life insurance</b>
Projected benefit obligation at December 31	\$ 272,676	8,005	15,291
Fair value of plan assets at December 31	210,789	—	—
Unfunded status	<u>\$ (61,887)</u>	<u>(8,005)</u>	<u>(15,291)</u>



# GE INDUSTRIAL OF PR, LLC

## Notes to Financial Statements

December 31, 2014

	<b>Pension benefits</b>	<b>Postretirement benefits</b>	
		<b>Medical</b>	<b>Life insurance</b>
Change in benefit obligation:			
Projected benefit obligation at beginning of year	\$ 224,176	7,736	13,584
Service cost	3,092	348	232
Interest cost	10,643	362	646
Plan participants' contributions	1,029	—	—
Actuarial (gain) loss	46,852	360	1,112
Benefits paid	(13,116)	(801)	(283)
Projected benefit obligation at end of year	\$ 272,676	8,005	15,291
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 201,298	—	—
Actual return on assets	11,908	—	—
Employer contributions	9,670	801	283
Plan participants' contributions	1,029	—	—
Benefits paid	(13,116)	(801)	(283)
Fair value of plan assets at end of year	\$ 210,789	—	—
	<b>Pension benefits</b>	<b>Postretirement benefits</b>	
		<b>Medical</b>	<b>Life insurance</b>
Components of net periodic benefit cost:			
Service cost	\$ 3,092	348	232
Interest cost	10,643	362	646
Expected return on assets	(15,063)	—	—
Net prior service cost/(credit) amortization	116	—	—
Net loss/(gain) amortization	4,407	(548)	—
Disclosed benefit cost	\$ 3,195	162	878

Amounts recognized by the GE Companies in Puerto Rico in accumulated other comprehensive income in 2014 consist of the following:

	<b>Pension benefits</b>	<b>Postretirement benefits</b>	
		<b>Medical</b>	<b>Life insurance</b>
Net prior service cost/(credit)	\$ 194	—	—
Net loss (gain)	120,189	(548)	714
	\$ 120,383	(548)	714

# GE INDUSTRIAL OF PR, LLC

## Notes to Financial Statements

December 31, 2014

The accumulated benefit obligation for the Pension Plan was \$266,766 at December 31, 2014. The amounts recognized by the GE Companies in Puerto Rico as of December 31, 2014 consist of the following:

	<b>Pension benefits</b>	<b>Postretirement benefits</b>	
		<b>Medical</b>	<b>Life insurance</b>
Pension and postretirement liability	\$ (120,383)	(8,005)	(15,291)
Pension asset	58,496	—	—
Net pension and postretirement liability	\$ (61,887)	(8,005)	(15,291)

The amortization of net loss and prior service cost for the contributory defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal years is \$7,551. The amortization of the net gain and net transition obligations for the postretirement benefits (medical) plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$486.

Weighted average assumptions used to determine benefits obligation at December 31, 2014 is as follows:

	<b>Pension benefits</b>	<b>Postretirement benefits</b>	
		<b>Medical</b>	<b>Life insurance</b>
Discount rate	4.01%	4.01%	4.01%
Rate of compensation	3.00	3.00	3.00

Weighted average assumptions used to determine net benefits cost for the year ended December 31, 2014 is as follows:

	<b>Pension benefits</b>	<b>Postretirement benefits</b>	
		<b>Medical</b>	<b>Life insurance</b>
Discount rate	4.83%	4.83%	4.83%
Expected long-term rate of return on plan assets	7.50%	N/A	N/A
Rate of compensation increase	3.00%	3.00%	3.00%

## GE INDUSTRIAL OF PR, LLC

### Notes to Financial Statements

December 31, 2014

Assumed medical care cost trend rates have a significant effect on the amounts reported for the Company's postretirement benefit plans. The assumed Medical cost trend rates for the years ended December 31, 2014 is as follows:

	<b>Medical postretirement benefit plan 2014</b>
Current Health Care Cost Trend Rate	7.00%
Ultimate Health Care Cost Trend Rate	5.00%
Year of Ultimate Trend Rate	2019

The mortality tables used by the contributory defined benefit pension plan as well as by the postretirement medical and the postretirement life insurance plans were updated to the RP-2014 Employee and Annuity Mortality Tables projected generationally using a modified Scale MP-2014.

The GE Companies in Puerto Rico do not expect to make contributions for the contributory defined benefit pension plan during 2015. Additionally, the GE Companies in Puerto Rico expect to contribute during 2015 approximately \$755 to the postretirement medical plan and approximately \$530 to the postretirement life insurance plan. GE Companies in Puerto Rico fund retiree health benefits on a pay-as-you-go basis. GE Companies in Puerto Rico fund the retiree life insurance trust at their discretion.

To determine the expected long-term rate of return on pension plan assets, the GE Companies in Puerto Rico consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. The GE Companies in Puerto Rico apply an expected rate of return to a market-related value of assets, which reduces the underlying variability in assets to which the GE Companies in Puerto Rico apply that expected return.

The GE Companies in Puerto Rico amortize actuarial gains and losses, as well as the effects of changes in actuarial assumptions and plan provisions, over a period no longer than the average future service of employees.

The pension plan assets are invested in the GE Pension Trust (the Trust) along with the assets of other GE affiliates pension plan assets.

# GE INDUSTRIAL OF PR, LLC

## Notes to Financial Statements

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The Trust has a broadly diversified portfolio of investment in equities, fixed income, private securities, real estate, and hedge funds; these investments are both U.S. and non-U.S. in nature. As of December 31, 2014, U.S. government direct and indirect obligations represented 16% of the total Trust assets. No one sector concentration of assets exceeds 15% of the total Trust assets. The asset allocations presented below are for the GE Company Pension Plan for the year ended December 31, 2014 (amount in millions):

		<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
	<b>Total</b>			
Asset category:				
Equity securities:				
U.S. equity securities (a)	\$ 12,956	11,493	1,463	—
Non-U.S. equity securities (a)	9,153	7,021	2,132	—
Debt securities:				
Fixed income and cash				
investment funds	4,500	245	4,255	—
U.S. corporate (b)	5,155	—	5,153	2
Residential mortgage				
backed	1,119	—	1,118	1
Non-U.S. Corporate	1,100	—	1,097	3
U.S. government and				
federal agency	2,468	—	2,468	—
Other debt securities (c)	1,042	—	1,042	—
Private equities (a)	5,249	—	32	5,217
Real estate (a)	3,129	—	—	3,129
Other investments (d)	2,318	—	70	2,248
	<u>48,189</u>	<u>18,759</u>	<u>18,830</u>	<u>10,600</u>
Cash and other	<u>91</u>			
Total assets	\$ <u>48,280</u>			

- (a) Included direct investments and investment funds
- (b) Primarily represented investment-grade bonds of U.S. issuers from diverse industries
- (c) Primarily represented investments in state and municipal debt, non-U.S. government bonds, and commercial mortgage-backed securities.
- (d) Substantially all represented hedge fund investments
- (e) Primarily represented net unsettled transactions related investment activity and cash balances.

# GE INDUSTRIAL OF PR, LLC

## Notes to Financial Statements

December 31, 2014

The following table presents the changes in Level 3 investments for the GE Pension Plan.

Changes in Level 3 investments for the years ended December 31, 2014 are as follows:

	January 1, 2014	Net realized gains (losses)	Net unrealized gains	Purchases, issuances, and settlements	Transfers into and/or out of Level 3 (a)	December 31, 2014
Debt securities	\$ —	(9)	11	4	—	6
Private equities	6,269	592	(54)	(1,565)	(25)	5,217
Real estate	3,354	36	334	(595)	—	3,129
Other investments	1,622	47	86	194	299	2,248
	<u>\$ 11,245</u>	<u>666</u>	<u>377</u>	<u>(1,962)</u>	<u>274</u>	<u>10,600</u>

(a) The realized/unrealized gains (losses) include \$1,616 million related to assets still held and \$42 million for assets no longer held.

(b) Transfers into and out of Level 3 are considered to occur at the beginning of the period.

Plan fiduciaries of the GE Pension Plan set investment policies and strategies for the GE Pension Trust and oversee its investment allocation, which includes selecting investment managers, commissioning periodic asset-liability studies and setting long-term strategic targets. Long-term strategic investment objectives take into consideration a number of factors, including the funded status of the plan, a balance between risk and return, and the plan's liquidity needs. Target allocation percentages are established at an asset class level by plan fiduciaries. Target allocation ranges are guidelines, not limitations, and occasionally plan fiduciaries will improve allocations above or below a target range. Plan fiduciaries monitor the GE Pension Plan's liquidity position in order to meet the near-term benefit payment and other cash needs. The GE Pension Plan holds short-term debt securities to meet its liquidity needs.

GE Pension Trust assets are invested subject to the following additional guidelines:

- Short-term securities purchased must generally be rated A-1/P-1 or better, except for 15% of such securities that may be rated A-2/P-2 and other short-term securities as may be approved by the plan fiduciaries.
- Real estate investments may not exceed 25% of total assets.
- Investments in restricted securities (excluding real estate investments) that are not freely tradable may not exceed 30% of total assets (actual was 17% of trust assets at December 31, 2014).

According to statute, the aggregate holdings of all qualifying employer securities (e.g., GE common stock) and qualifying employer real property may not exceed 10% of the fair value of trust assets at the time of purchase. GE securities represented 3.8% of trust assets at year-end 2014.

## GE INDUSTRIAL OF PR, LLC

### Notes to Financial Statements

December 31, 2014

Estimated future benefit payments for the GE Companies in Puerto Rico Plans are as follows:

	<b>Pension benefits</b>	<b>Postretirement benefits</b>	
		<b>Medical</b>	<b>Life insurance</b>
Estimated future benefit payments:			
2015	\$ 13,300	755	530
2016	14,842	645	541
2017	17,129	621	551
2018	15,653	604	567
2019	13,720	610	592
2020–2024	71,019	3,232	3,395

The Company also participates in a 401(k) plan (the 401(k) Plan), which covers all salaried employees and other GE employees in Puerto Rico after the date of hire. Under the provisions of the 401(k) Plan, employees elect to contribute of their before-tax annual compensation and the Company matches 50% of the first 6% of the amount contributed by the employees up to a maximum \$15 in 2014.

On July 1, 2008, the Company adopted a 401(k) Plan, which covers all hourly employees and other GE employees in Puerto Rico (Hourly Plan). Under the provisions of the Hourly Plan, employees are eligible to the plan after three months of the hire date and the Company matches 50% of the first 6% of the amount contributed by the employees up to a maximum of \$15 in 2014.

The Company may also make discretionary annual contributions to the 401(k) Plans out of its operating income, as defined in the 401(k) Plan and the Hourly Plan. The amount of contributions expense recognized by the Company during the year ended December 31, 2014 amounted to approximately \$115.

#### (7) Contingencies

##### (a) *Environmental Remediation Costs*

The Company is involved in a remediation action to clean up hazardous wastes as required by federal and the Puerto Rico Commonwealth laws. Liabilities for remediation costs at the site are based on the Company's best estimate of undiscounted future costs, excluding possible insurance recoveries. When there appears to be a range of possible costs with equal likelihood, liabilities are based on the low end of such range. Uncertainties about the status of laws, regulations, technology, and information related to individual sites make it difficult to develop a meaningful estimate of the reasonably possible aggregate environmental remediation exposure. However, management is of the opinion that, even in the unlikely event that remediation costs amounted to the high end of the range of costs for each site, the resulting additional liability would not be material to the financial position, results of operations, or liquidity of the Company. As of December 31, 2014, the Company has accrued approximately \$1,456,000 for related future monitoring expenditures.

## GE INDUSTRIAL OF PR, LLC

### Notes to Financial Statements

December 31, 2014

**(b) Legal**

The Company is a defendant in legal actions arising in the ordinary course of business. Management, after consultation with its legal counselors, is of the opinion that the ultimate liability, if any, resulting from such pending legal actions would not be material in relation to the financial position, results of operations, or liquidity.

**(c) Leases**

The Company leases certain operating facilities under noncancelable operating leases expiring at various dates through 2018. Rent expense charged to operations amounted to approximately \$1,299,000 in 2014.

The following is a schedule of the future minimum lease payments:

Years ending December 31:	
2015	\$ 1,519,172
2016	1,519,172
2017	1,519,172
2018	1,519,172
	<hr/>
	\$ 6,076,688
	<hr/>

**(8) Fair Value of Financial Instruments**

The Company's significant financial instruments included cash, accounts receivable, accounts payable, and accrued expenses. At December 31, 2014, the carrying value of most financial instruments approximated fair value since the amounts are expected to be collected or disbursed within one year.

**(9) Royalties**

On May 7, 2012, GE Energy Management (GE Energy) signed a new strategic alliance with China XD Electric Co., Ltd. (XD Electric) in order to deliver a full line of electric transmission, distribution and grid automation solutions to customers and energy intensive instruments around the world. As part of the strategic alliance, GE Energy agreed to establish an automation joint venture (AJV) in China with XD Electric in order to offer customers secondary equipment products and localized grid automation solutions in China. The AJV will enable GE Energy to expand their access to the China Technological and Development segment by adapting GE Energy's technology to local market needs with the support with the support of a strong regional primary equipment company. GE Energy will also sell a perpetual IP technology license of its universal relays at a fee to the AJV for the design and manufacture of automation products. The AJV's sole market is China. The AJV was formed in March 2013.

## **GE INDUSTRIAL OF PR, LLC**

### **Notes to Financial Statements**

December 31, 2014

The technology transfer agreement between GE Energy and XD Electric provides for the transfer of certain GE Energy's technology and intellectual property (IP) related to specific secondary equipment products to the AJV in exchange for \$12 million in technology transfer fees to be paid as royalties by the AJV to GE Industrial of PR LLC (the Company). The technology agreement grants the rights to the AJV to use the technology and IP, as well as requires the Company to provide to the AJV certain technical assistance, support and training in connection with such transfer, and it also grants the Company and AJV the rights to certain improvements, modifications, enhancements, adaptations, derivative works and changes to the technology and IP created, developed or conceived after the date of the technology agreement. The technology agreement outlines provisions of what will be transferred, when it will be performed and through what means. For the year ended December 31, 2014, the Company did not received royalty payments.

#### **(10) Subsequent Event**

On May 29, 2015, the Governor of the Commonwealth of Puerto Rico signed law No. 72, which became Act 72-2015 (the Act). The Act, which amends the Puerto Rico Internal Revenue Code of 2011, includes several new tax measures applicable to financial and nonfinancial entities. The main provisions of the Act include:

- Regular Net Operating Losses is limited to 80% of Current Year Taxable Income.
- Alternative Minimum Tax is limited to 70% of Current Year AMT Income.
- Intercompany Expenses are not allowed as part of the NOL to be carried forward.
- For intercompany expenses subject to 51% Limitation, the waiver is only allowed for up to 60% of intercompany Expenses.
- For intercompany purchases from related parties outside of Puerto Rico (only for businesses with \$10 million or more of gross revenues), the AMT fluctuates from 2.5% through 6.5% on intercompany purchases. Rate depends on level of gross revenues. No new waivers after 2014.

This Act has also changed several rules regarding sales & use tax (SUT) in Puerto Rico. Effective April 1, 2016 the Act also introduced a value added tax (the "VAT") on consumption to replace the current sales and SUT, and certain temporary changes on SUT for the transition into the VAT. The changes in SUT include, an increase in tax rate from 7% to 11.5%, effective July 1, 2015, and a new 4% SUT on business to business services, and professional services, with certain exceptions, effective October 1, 2015. That law included a measure that the Puerto Rico Treasury Secretary could postpone for 60 days the application of the VAT provisions. Early in March 2016, the Puerto Rico Secretary of the Treasury postponed until June 1, 2016 the implementation of the VAT.

However, Administrative Determination 16-09 was recently issued by the Treasury Department for the purpose of: notify the repeal of the Value Added Tax (VAT) to all taxpayers and merchants; the repeal of all the administrative determinations issued related to the VAT; and to inform about the dispositions that will maintain their validity and those that will be adopted transiently as a result of the repeal of the VAT.



## **GE INDUSTRIAL OF PR, LLC**

### Notes to Financial Statements

December 31, 2014

In response to these changes, if the business in Puerto Rico purchases fixed assets, and fails to pay the sales & use tax or value added tax on the purchase, as applicable, no deduction for depreciation will be allowed. Also, net capital loss carry-overs for corporations will now be limited to 80% of current year net long term capital gains.

The Company has evaluated subsequent events from the balance sheet date through August 17, 2016, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.